

January 9, 1998

## **A Look at Clinton's Social Security, Medicare, and Welfare Initiatives** **President Clinton's New Year's Resolutions**

Like New Year's resolutions, new domestic initiatives of the Clinton Administration have been floated by the Clinton White House in recent days. In addition to the \$22 billion child care proposal proffered Wednesday [see RPC paper, "Managed Day Care Makes its Debut," 1/9/98], details of three other domestic initiatives slowly have been bubbling out before Clinton pops the cork at the State of the Union.

In contrast to most New Year's resolutions, which are supposed to be beneficial, Clinton's would make America worse off — particularly the American taxpayer. The initiatives addressed here are the President's plans to —

- 1) Avoid responsibility for Social Security reform by not offering any proposals but instead calling Congress back to town after the 1998 election for a special session to solve the problem;
- 2) Pursue bad policy by expanding Medicare eligibility to persons age 55 through 64 by allowing them to enter this entitlement program early; and
- 3) Undo the good policy of the 1996 welfare reform act by making legal immigrants eligible for food stamps.

As such, the Clinton New Year's resolutions seem guaranteed to leave the country with a hangover of new entitlement spending that it can ill afford in the next century.

### **Clinton's Social Security Proposal: Avoiding Responsibility**

President Clinton is considering calling for a special session of Congress to resolve Social Security's long-term funding crisis by no later than 1999. Presumably, the President will call the Congress back to town after the 1998 election. Haven't we seen this play before? — Punt. Even the *Washington Post*, in a January 6 editorial, pointed out: "What [President Clinton] can't responsibly do, though, is duck the subject of pain, which he has too often tried to do on the hard ones like this in the past." Of course, that is precisely what he is doing — and in an especially transparent way:

- A special session called after the 1998 election would have three months at most to address the most sensitive political and arguably most important policy issue in America.
- How likely would this lame-duck Congress be to reach a bipartisan accord right after an election had stirred the partisan political pot?
- The accord would be reached by members of the 105th Congress — denying voters the right for decisions to be made by those they selected to serve them in the 106th Congress.

## Clinton's Medicare Proposal: Pursuit of Bad Policy

The President is said to be seeking significant expansion of Medicare by making benefits available to younger retirees, as young as 55, who could pay monthly fees in order to receive the same services as Medicare patients. At this moment, this can't be characterized as anything but bad policy. For starters, what will its price tag be beyond the claimed \$2-to-\$3 billion in start-up costs? What will it cover? What will it do to private insurance? Most importantly, how will it affect the trends already driving elderly entitlement programs to bankruptcy? One thing is certain: this will impact entitlement programs that already face a dramatically increased strain in the next few years.

- Entitlement spending has fueled budget deficits for 30 years:  
  
*"A few large entitlement programs — Social Security, Medicare and Medicaid — and interest payments have accounted for over three-quarters of the total outlay growth since 1971. Overall, spending for entitlement and other mandatory programs arising outside of the annual appropriations process grew more than four times faster in real terms than appropriated (i.e., discretionary) spending."* [General Accounting Office, Staff Study, Federal Fiscal Trends: Fiscal Years 1971-1995. November 1996, p. 4.]
- Entitlement spending will exacerbate fiscal pressure to the crisis level soon:  
  
*"This year's budgetary news should not lull people into complacency: the retirement of the large baby-boom generation is just over the horizon. . . . If the budgetary pressure from both demography and health care spending is not relieved by reducing the growth of expenditures or increasing taxes, deficits will mount and seriously erode future economic growth. . . . Current budget policy is unsustainable, and attempting to preserve it would severely damage the economy."* [Congressional Budget Office, "Long-Term Budgetary Pressures and Policy Options," March 1997, pp. xi-xiii.]  
  
*"If no further action were taken, our simulations indicate that federal spending would grow faster than revenues soon after the baby boom*

*generation begins to retire in 2008. These higher spending levels would be driven by escalating health and Social Security costs. . . .*  
[GAO Report: "Budget Issues: Analysis of Long-Term Fiscal Outlook," October 1997, pp. 1-7.]

While the Administration claims it is "not looking at new subsidies" [Office of Management and Budget Director Franklin Raines on *Meet the Press*, 1/4/98], one must wonder what they mean in light of how Medicare works. Medicare already pays out far more in benefits than its beneficiaries pay in: according to the Congressional Budget Office, the average 1995 retiree paid only 32.4 percent of the value of the benefits they would receive from Medicare. Does the Administration's "no new subsidy" plan mean the new 55-64 age group will pay the full cost of their benefits or just the same rate as current beneficiaries? If it is the latter, then it amounts to a subsidy, and the Medicare trust fund will be more rapidly depleted and the taxpayer will be billed.

The "no-subsidy" claim is dubious since OMB Director Raines also stated that the current Medicare system will help pay for this new program: "It'll be paid for within the Medicare system, both by participants and elsewhere in the system" [*Meet the Press*, 1/4/98]. But say there is no subsidy from Medicare, then what is the attraction of a full-cost Medicare policy (even if some savings result from spreading the insurance risk over a larger number), as compared to private insurance?

And, if it is to be subsidized, then what of the so-called "crowd-out" factor by which people leave their current insurance arrangement for a government program? If there is sufficient incentive for the 13.8 percent of uninsured individuals age 55-64 to move to Medicare, why won't others leave existing private arrangements as well? Rather than push people into a government-run system, why not allow people to open medical savings accounts (MSAs) in preparation for this period of their lives?

And finally, what are the consequences of this action in its potential to encourage people to retire earlier? Already, Medicare and Social Security are severely strained by the trend of an ever-decreasing workforce supporting an increasing number of retirees. The number of workers per Social Security beneficiary is 3.3 now, and will drop to 2.0 in 2030. It is irresponsible to exacerbate the trend that already threatens these programs.

Meanwhile, the job of the newly ordained Medicare Reform Commission, which still has no chairman and has yet to meet, is only made tougher by these new demands on Medicare.

## **Clinton's Welfare Proposal: Undoing Good Policy**

Reportedly, the President seeks to restore food stamps to immigrants whose eligibility was ended as a result of the 1996 welfare reform act. This president has a history of undoing welfare reform — a policy the country enthusiastically supports — despite his own election-year conversion. This latest proposal would further increase the taxpayer costs by

\$2-to-\$3 billion over five years. Consider the Clinton record on undoing welfare reform thus far:

- Clinton vetoed welfare reform in the Balanced Budget Act (BBA, H.R. 2491) on November 17, 1995, that would have saved \$94 billion over seven years.
- Clinton vetoed welfare reform (H.R. 4) again on December 12, 1995, that would have saved \$64 billion over seven years.
- Clinton finally signed a bill (H.R. 3734) almost a year later on August 1, 1996, that saved \$54.9 billion over six years.
- Clinton then demanded that \$15.7 billion in additional welfare spending be included in the Balanced Budget Act of 1997.
- Clinton now wants an additional \$2-to-\$3 billion over five years.
- If Clinton is successful, he will have reduced Congress's original welfare reform proposal by more than half — \$47.7 billion at least.

Where will the money come from? Obviously, it will inevitably come from the American taxpayer. However, it is also valid to ask where in the budget the dollars for the new initiative will be found? Under budget procedures, the money must come from either new tax revenue or savings in other so-called "mandatory spending." Since last year's BBA included a tax-cut agreement, a tax increase would break the budget agreement. Clinton has yet to identify where he would cut other mandatory spending to pay for more welfare spending.

## **Clinton's Initiatives: Ring in the New by Wringing Out the Good**

The President's domestic initiatives, respectively —

- Avoid the responsibility of addressing essential Social Security reform with the theatrics of an ill-considered special session;
- Pursue the outright irresponsible by inviting more beneficiaries into an entitlement program that is already going broke in its current composition, and with long-term solutions yet to be determined; and
- Further undo the good policy of welfare reform the President signed two years ago.

If these are the President's New Year's resolutions, they should be broken *before* they are made.

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